

Testimony of Viking Energy of Lincoln & McBain

Senate Energy & Technology Committee

September 17, 2015

Thank you, Chairman Nofs, and members of the committee, for hearing my testimony today on SB 437. My name is Tom Vine, I'm the Plant Manager at Viking Energy of McBain.

Viking Energy of Lincoln and Viking Energy of McBain, owned and operated by GDF SUEZ Energy North America, have been producing distributed, baseload power since the 1980s. Together our plants generate 36 MW of renewable power, which supports the grid and helps keep the power available over remote areas of the state. Our power is sold to Consumers Energy under a long-term contract that ends in 2018.

What makes biomass power different from other forms of renewable energy, like wind and solar, is that it is baseload and dispatchable. We can run with the same, or better, reliability as a coal, natural gas, or nuclear power plant. The Lincoln and McBain facilities have a combined capacity factor greater than 98% over their 26 years of operation.

Biomass power is home-grown, Michigan-made renewable energy. Our wood fuel comes from the residuals and byproducts of the forest products industry: the tops and limbs left over from timber harvest, bark and sawdust from mills, sawdust and scraps from the manufacturer of board and lumber, and even wood diverted from landfills, such as crates and pallets. We take wood from forest stewardship projects, such as the removal of dead, dying or diseased trees, and offset the cost of wildlife habitat management and development by providing a market for wood that would otherwise have to be disposed of at additional expense.

Most importantly, biomass power supports rural jobs and rural communities. According to a preliminary economic study commissioned by the DNR, in 2012 biomass power in Michigan contributed \$62 million in economic output and supported nearly 700 direct and indirect jobs with \$48 million in payroll and benefits; all in rural communities that are some of the most economically depressed areas of the state – places like Montmorency, Roscommon, Baraga, Presque Isle, and Oscoda counties that were among the eight worst counties for unemployment in May.

At the end of 2018, the jobs and benefits of Lincoln's and McBain's biomass plants will go away if we are unable to renew or extend our current contracts at energy and capacity rates that cover our cost of production, and are reasonable to the utility, reasonable to their customers, and reasonable to our power plants. These contracts were written in the 1980s under federal PURPA law, built on the framework of avoided cost, last approved by the Michigan Public Service Commission in 1982, and based on Consumers Energy's cost of running their coal power plants, which includes the cost of fuel, operations & maintenance, and capacity. In September of last year, Consumers Energy testified in case U-17678¹ that they intended to change that avoided cost structure to market-based rates on their own; when in fact, only the PSC has the authority to establish an avoided cost structure under PURPA.

¹ Direct testimony of David F. Ronk, JR, application page 15

We are requesting that the state legislature codify the requirements of the federal PURPA law, as most other states have done, eliminating any ambiguity that it is the MPSC who has the authority and the responsibility for establishing the avoided cost structure appropriate for Michigan, which is fair and reasonable for the utilities, the rate payers and the independent power producers. The integrated resource planning process, if approved, is years away from implementation. Commission action on avoided cost is needed now, before these contracts lapse, so these facilities have the opportunity to be part of Michigan's "no regrets" energy future.

Michigan's biomass facilities are too valuable to let them go idle. Our energy source provides stable pricing against fluctuating fuel prices and a host of economic, resource, environmental and technical benefit. Without the revenues from a PPA these facilities cannot operate and these benefits will be lost.

Michigan's energy policy needs to keep independent biomass power producers viable. We need contract terms that are just and reasonable under the constructs of PURPA, and allow for the recovery of fuel, O&M and capacity costs.

Viking Energy believes the state needs to explore incentives to encourage regulated utilities to enter PPAs that reflect the value-added of biomass power. Regulated utilities are required by PURPA to buy power from qualified electric generating facilities of 20 MW and smaller at avoided cost. Consumers Energy's standard offer of short-term market pricing and capacity, approximately \$45 per MWh, is inadequate for operating these facilities and does not meet the avoided cost constructs of PURPA, which we believe should be based on the cost of a combined cycle natural gas plant – the most likely "next build" generation that will have a transfer price of between \$80 and \$90 per MWh. If the MISO-based offer of approximately \$45 per MWh stands unchanged, Viking Energy will close these facilities in 2019 as it will not be profitable to continue operations. If a reasonable avoided cost contract price can be agreed upon, which are based on the cost of operating a baseload facility like Consumers Energy's proposed Thetford natural gas power plant, then the Lincoln and McBain facilities will continue to operate and contribute to the economy of Michigan and their respective local, rural areas for many years to come.

Electricity from small biomass facilities diversifies Michigan's energy portfolio, supports local communities with well-paying jobs and tax revenues, aids forest health and stewardship, helps manage wastes generated by the forest products industry and supports the grid. Not ensuring their viability will have major consequences in these communities and the forest products industry.

In 2013 Gov. Snyder announced initiatives to revitalize the state's forest products industry, and biomass power will be a key part of that success. We need to be there to support that industry, and be part of Michigan's energy future.

Viking Energy appreciates this opportunity, and would like to work with the bill sponsors to ensure small qualified facilities can continue their role and service the people of the State of Michigan.